

No. 9/4/DPM

Jakarta, March 16 2007

CIRCULAR LETTER

Subject : Procedures of Government Securities Auction in Primary Market and
Government Securities Administration

Following the enactment of Bank Indonesia Regulation Number 9/3/PBI/2007 dated March 16, 2007 concerning Government Securities Auction and Administration (State Gazette of the Republic of Indonesia Number 45 of 2007, Supplement to the State Gazette of the Republic of Indonesia Number 4710) and Bank Indonesia Regulation Number 6/1/DPM dated February 16, 2004 concerning Bank Indonesia - Scripless Securities Settlement System (State Gazette of the Republic of Indonesia Number 15 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4363), it is deemed necessary to regulate guidelines for the implementation of Procedures of Government Securities Auction in Primary Market and Government Securities Administration in a Bank Indonesia Circular Letter as follows.

I. General Provisions

1. Government Securities, hereinafter referred to as SUN, is a securities in the form of promissory note as referred to in Act Number 24 of 2002 concerning Government Securities, comprising Treasury Bills and Government Bond.
2. Treasury Bills, hereinafter referred to as SPN, is a SUN with a maturity of up to 12 (twelve) months and interest payment by discount.

3. Government ...

3. Government Bond is a SUN with a maturity of more than 12 (twelve) months with coupon and/or with interest payment by discount.
4. Retail Government Bond, hereinafter referred to as ORI, is a SUN sold to individuals or individual persons of Indonesian citizen through Selling Agents.
5. Selling Agent is a Bank and/or Securities Company designated by the Minister of Finance to conduct the sale of ORIs.
6. Primary Dealer is a financial institution (Bank and Securities Company) designated by the Minister of Finance to perform certain duties either in SUN Primary Market or Secondary Market in Rupiah currency with specific rights.
7. Auction Participant is a Primary Dealer designated by the Minister of Finance to participate in SUN Auction and is not under imposition of any sanction for not participating in SUN Auction.
8. SUN Auction is a selling of SUN participated by Auction Participant and Bank Indonesia or only by Auction Participant by Competitive Bidding and/or Non-competitive Bidding in a bidding period which has been determined and announced in advance.
9. Competitive Bidding is a bidding by stating the volume and Yield.
10. Non-competitive Bidding is a bidding by stating the volume without Yield.
11. Broker Bidding Limit is a delegation of authority from Bank or Sub-Registry through BI-SSSS to Auction Participant to bid per day in SUN Auction for and on behalf of Bank or Sub-Registry customers at the maximum of a given bidding limit.
12. Multiple price is defined as a price paid by each auction winner in accordance with bidding price.

13. Weighted average price is defined as a price calculated from the sum of multiplication of each volume and bidding price of won SUN divided by the total volume of sold SUN.
14. SUN Administration is an activity including ownership registration, clearing and settlement, and payment agent of SUN interest (coupon) and principal.
15. Central Registry is Bank Indonesia, which performs functions as the administrator of securities including SUN for the interest of Bank, Sub-Registry, and other parties approved by Bank Indonesia.
16. Sub-Registry is a Bank or an institution conducting custodian activities, approved by Bank Indonesia to perform functions as the administrator of securities including SUN for customers.
17. Commercial Bank Daily Report, hereinafter referred to as LHBUR, is a report prepared and submitted by Reporting Banks to Bank Indonesia on daily basis.
18. Bank Indonesia – Real Time Gross Settlement System, hereinafter referred to as BI-RTGS System, is a system for electronic funds transfer among members in the Rupiah currency with settlement processed on an individual per transaction basis.
19. Bank Indonesia – Scripless Securities Settlement System, hereinafter referred to as BI-SSSS, is an electronic system for conducting transactions with Bank Indonesia, including administration of these transactions and Securities Administration, seamlessly connected to Members, the Operator, and the BI-RTGS System.
20. Delivery Versus Payment, hereinafter referred to as DVP, is a SUN settlement by means of securities settlement through the BI-SSSS conducted simultaneously with fund settlement at Bank Indonesia through the BI-RTGS System.

21. Free of Payment, hereinafter referred to as FoP, is a SUN transaction settlement by means of securities settlement through the BI-SSSS, while fund settlement is conducted not simultaneously with securities settlement or without fund settlement.
22. Government Bond Buyback Auction, hereinafter referred to as Buyback Auction, is a Government Bond buyback by the Government in Secondary Markets prior to maturity in cash and/or by debt switching in a determined offering period and announced in advance.
23. SUN Lending Facility is a facility provided by the Minister of Finance for Primary Dealer to borrow SUN in accordance with procedures as stipulated in applicable Minister of Finance Regulation.

II. Procedures of SUN Auction in Primary Market

A. Terms and Conditions

1. Party eligible to buy SUN in SUN Auction in Primary Market is individual person, or organized group of persons and/or properties either incorporated as a legal entity or no legal entity, or Bank Indonesia.
2. Buyer other than Bank Indonesia shall bid SUN through Auction Participant to Bank Indonesia as the auction agent.
3. Auction Participant may bid SUN Auction for and on its own behalf and/or on behalf of other party.
4. Auction bidding may be conducted by a Competitive Bidding or a combination of Competitive Bidding and Non-competitive Bidding.
5. If Auction Participant bids SUN either directly or through other Auction Participant for and on its own behalf, the bidding may only be conducted by a Competitive Bidding.

6. If Auction Participant bids SUN for and on behalf of other party, the bidding shall be conducted as follows .
 - a. SPN auction bidding shall be conducted by a Competitive Bidding;
 - b. Government Bond auction bidding shall be conducted by a Competitive Bidding and/or Non-competitive Bidding.
7. Bank Indonesia may only buy SUN in Primary Market in the form of SPN.
8. Bank Indonesia may buy SPN in Primary Market through SPN auction under the following requirements.
 - a. bidding shall be made directly without through any Auction Participant;
 - b. bidding is only for a Non-competitive Bidding.
9. SUN Auction shall be conducted on Tuesdays or on other working days if Tuesdays are public holidays. Any change of schedule of SUN Auction shall be announced by Bank Indonesia through LHBU and/or other means as stipulated by Bank Indonesia.
10. Means to be used for SUN Auction bidding shall be the BI-SSSS.
11. Bank Indonesia, c.q. Directorate of Monetary Management (DPM), shall announce any auction plan no later than 1 (one) working day prior to the day of SUN Auction through the BI-SSSS, LHBU, and other means as stipulated by Bank Indonesia.
12. If Bank bids SUN Auction through Auction Participant, the Bank shall be required to determine a Broker Bidding Limit per day for the designated SUN Auction Participant.
13. Auction Participant other than Bank bidding SUN Auction shall be required to designate Sub-Registry to settle SUN Auction results.
14. Sub-Registry designated by any party other than Bank to settle SUN

Auction results as referred to in number 13 shall be required to determine a Broker Bidding Limit per day for Auction Participant for Sub-Registry customer.

15. The Broker Bidding Limit as referred to in number 12 and 14 shall be stipulated in an agreement between Bank or Sub-Registry and Auction Participant.

B. Auction Operation

1. Prior to an auction operation, Bank Indonesia, c.q. DPM, shall announce the plan of SUN Auction operation through the BI-SSSS, LHBU, and other means to be determined by Bank Indonesia.
2. The announcement on SUN Auction plan shall contain at least :
 - a. types of SUN;
 - b. window time of auction;
 - c. indicative target;
 - d. maturities of SUN;
 - e. dates of issuance and maturity;
 - f. currency;
 - g. opening and closing times for bidding;
 - h. time of announcement on auction results;
 - i. dates of settlement;
 - j. allocation for Non-competitive Bidding if conducted by a combination of Competitive and Non-competitive Bidding.
3. On the day of SUN Auction, Auction Participant shall bid quantity and discount rate or Yield for Competitive Bidding or quantity for Non-competitive Bidding.
4. SUN Auction biddings as referred to in number 3 shall be conducted from 10.00 a.m. up to 12.00 p.m. (western Indonesian time) or other

time ...

time as stipulated by the Minister of Finance of the Republic of Indonesia, c.q. Director-General of Debt Management.

5. Auction Participant bids SUN Auction for Competitive Bidding including quantity and discount rate or Yield as follows.
 - a. quantity bids submitted by each Auction Participant shall be no less than 1,000 (one thousand) units or Rp1,000,000,000.00 (one billion Rupiah) and the remaining shall be in the multiplication of 100 (one hundred) units or Rp100,000,000.00 (one hundred million Rupiah);
 - b. bids on discount rate or Yield shall be submitted in the multiplication of 1/32 (one thirty second) or 0.03125 (three thousand and one hundred and twenty five per one hundred thousand).
6. Auction Participant bids SUN Auction for Non-competitive Bidding including quantity bids with stipulation as referred to in point 5.a.
7. Auction Participant shall be required to submit the bidding either on its own behalf or on behalf of other parties including data of the rate of income tax on SPN discount and shall be responsible for the reliability of the data.
8. Auction Participant which has submitted bid may not cancel its biddings.

C. Determination of Auction Winners

1. The Minister of Finance of the Republic of Indonesia shall determine results of SUN Auctions in Primary Market including auction winners, nominal values, and discount rate or Yield.
2. SUN price for auction winners with Competitive Bidding shall be determined by Multiple Price method.

3. SUN price for auction winners with Non-competitive Bidding shall be determined by Weighted Average Price method.
4. The Minister of Finance of the Republic of Indonesia may adjust quantities of SUN Auction results and/or reject the whole or a part of incoming bids.

D. Announcement on Auction Results

1. Bank Indonesia shall announce SUN Auction results through the BI-SSSS, LHBUs, and other means as stipulated by Bank Indonesia at the end of any SUN Auction.
2. The announcement on SUN Auction results as referred to in number 1 shall contain at least the total quantity of auction and weighted average discount rate or Yield.
3. Bank Indonesia shall announce SUN Auction results to each Auction Participant through the BI-SSSS containing at least name of winners, nominal values, and discount rate or Yield.
4. In the event of any rejection by the Minister of Finance of the Republic of Indonesia on the whole or a part of SUN Auction bids, Bank Indonesia shall announce the rejection through the BI-SSSS, LHBUs, and other means as stipulated by Bank Indonesia.

III. Procedures of SUN Administration

A. Settlement of SUN Auction Results in Primary Market

1. SUN Auction Results in Primary Market shall be settled as follows.
 - a. SPN auction results shall be settled on 1 (one) following working day after the SPN auction (T+1);
 - b. Government Bond auction results shall be settled no later than 5 (five) following working days after the announcement of Government Bond auction winners (T+5).

2. SUN Auction winner other than Bank shall be required to designate Sub-Registry to settle and register the ownership of won SUN.
3. To settle SUN Auction results in favor of customers, Sub-Registry shall be required to designate Paying Bank holding Rupiah account at the BI-RTGS System for fund settlement.
4. As SUN Auction winners have been determined by the Minister of Finance of the Republic of Indonesia, Bank Indonesia, c.q. DPM, shall register the issuance and settlement of SUN Auction results.
5. The registration of issuance of SUN as referred to in number 4 shall be implemented in accordance with terms and conditions as stipulated by the Minister of Finance of the Republic of Indonesia.
6. SUN Auction results as referred to in number 4 shall be settled as follows.
 - a. Fund Settlement

Fund settlement shall be conducted through the BI-RTGS System by debiting Rupiah account of Bank and/or Paying Bank designated by Sub-Registry at Bank Indonesia and crediting Rupiah account of the Government at Bank Indonesia amounting to the settlement value.
 - b. SUN Settlement

SUN settlement shall be conducted by crediting securities account of BI-SSSS Participant at Central Registry amounting to the total nominal value of acquired SUN.
7. Bank and Paying Bank designated by Sub-Registry must assure sufficiency of funds available in Rupiah account of Bank or Paying Bank at Bank Indonesia for settlement of SUN Auction result.
8. In the event of any failure due to insufficiency of funds as referred to in number 7 up to the deadline of fund settlement in the BI-RTGS

System (cut off warning), the settlement on SUN Auction results through the Bank shall be cancelled.

9. Any Auction Participant failing to comply with provision as referred to in number 7 bringing about cancellation as referred to in number 8 shall be liable to a sanction referring to applicable Minister of Finance Regulation, namely shall not be permitted to participate in SUN Auction in Primary Market for successive 3 (three) times.
10. Following the SUN settlement as referred to in point 6b, on the same day Sub-Registry shall be required to register SUN ownership in favor of customers winning SUN Auction individually into the Sub-Registry system.
11. Bank Indonesia as the Central Registry shall impose income tax on SPN discount according to applicable stipulations.
12. SPN auction winners are required to pay settlement value and income tax as referred to in number 11 to the Government.
13. For the imposition of income tax as referred to in number 11, Bank Indonesia, c.q. DPM, shall issue the receipt of income tax imposition for SPN auction winners.

B. Settlement of Buyback Auction Results

1. Buyback auction results shall be settled in 3 (three) following working days after the date of auction (T+3).
2. Buyback Auction Participant other than Bank shall be required to designate Sub-Registry to settle Buyback auction results.
3. In the settlement of Buyback auction results, Sub-Registry shall be required to designate Paying Bank holding Rupiah account at the BI-RTGS.
4. Buyback Auction Participant shall be required to hold sufficient

Government Bond series and value in its securities account at the BI-SSSS or in its Sub-Registry securities account as referred to in number 2.

5. Based on Minister of Finance of the Republic of Indonesia decision concerning Buyback auction winners, Bank Indonesia, c.q. DPM, shall settle on the date of settlement with the following procedures.

- a. Buyback Auction by cash

- 1) Bank Indonesia, c.q. DPM, shall debit securities account of Auction Participant and/or Sub-Registry designated by the Auction Participant up to the deadline of securities settlement at the BI-SSSS, in the number of series and amount of acquired Government Bond value.
- 2) Bank Indonesia, c.q. DPM, shall credit securities account of the Government or execute early redemption on Government Bond series boughtback by the Government.
- 3) Bank Indonesia, c.q. DPM shall conduct fund payment through the BI-RTGS System by debiting Rupiah account of the Government and crediting Rupiah account of Bank and/or Paying Bank amounting to settlement value.

- b. Buyback Auction by debt switching

- 1) Bank Indonesia, c.q. DPM, shall debit securities account of Auction Participant and/or Sub-Registry designated by the Auction Participant up to the deadline of securities settlement at the BI-SSSS, in the number of series and amount of acquired Government Bond value.
- 2) Bank Indonesia, c.q. DPM, shall credit securities account of the Government or execute early redemption on Government Bond series boughtback by the Government.

3) Bank ...

- 3) Bank Indonesia, c.q. DPM, shall register issuance of destination SUN series and credit to securities account of Auction Participant or Sub-Registry designated by the Auction Participant.
 - 4) Buyback Auction may cause a cash difference borne by the Government or by Auction Participant.
 - 5) In the event of any cash difference borne by the Government, Bank Indonesia, c.q. DPM, shall execute fund settlement by debiting Rupiah account of the Government at Bank Indonesia and crediting Rupiah account of Bank or Paying Bank designated by Sub-Registry amounting to the cash difference.
 - 6) In the event of any cash difference borne by Auction Participant, Bank Indonesia, c.q. DPM, shall execute fund settlement by debiting Rupiah account of Bank or Paying Bank designated by Sub-Registry and crediting Rupiah account of the Government at Bank Indonesia amounting to the cash difference.
6. In the event that Buyback Auction Participant fails to settle securities as referred to in point 5.a.1) and point 5.b.1), the Participant shall be required to complete the settlement no later than 2 (two) working days since the date of initial settlement.
 7. In the event of any failure in complying with provision as referred to in number 6, transaction shall be cancelled.
 8. Any Buyback Auction Participant failing to comply with provision as referred to in number 7 shall be liable to a sanction referring to applicable Minister of Finance Regulation, namely :
 - a. to be announced to the public;

b. not ...

- b. not to be permitted to participate in SUN Auction in Primary Market and Buyback Auction for consecutive 3 times; and
- c. to be reported to banking and capital market authorities.

C. Settlement of SUN Lending Facilities

1. Provision of SUN Lending Facilities for Primary Dealer shall be settled in 2 (two) working days after application has been approved by the Minister of Finance of the Republic of Indonesia, c.q. Director-General of Debt Management (T+2).
2. SUN which is in lending and under collateral in the provision of SUN Lending Facilities for Primary Dealer by the Minister of Finance of the Republic of Indonesia, c.q. Director-General of Debt Management, shall be returned on the end of lending period.
3. Primary Dealer other than Bank shall be required to designate Sub-Registry to settle SUN Lending Facilities.
4. Primary Dealer must keep sufficiency of Government Bond series and value in securities account at the BI-SSSS or securities account of designated Sub-Registry as referred to in number 3.
5. Based on notification on approval of the Minister of Finance of the Republic of Indonesia, c.q. Director-General of Debt Management, as referred to in number 1, settlement shall be executed with following procedures.

a. Settlement of SUN Lending Facilities

Settlement of provision of SUN Lending Facilities shall be conducted on the settlement date with following procedures.

- 1) Primary Dealer shall pay SUN borrowing fee through the BI-RTGS System to Rupiah account of the Government at Bank Indonesia with account number 502.000001 "Bendahara

Umum Negara untuk Pengelolaan Obligasi dalam rangka Rekapitalisasi Perbankan”.

- 2) Primary Dealer shall submit receipt of SUN borrowing fee payment as referred to in number 1) to DPM, c.q. Monetary Management Transaction Settlement Division (PTPM).
- 3) Primary Dealer and Bank Indonesia on behalf of the Government shall transfer SUN series under collateral through the BI-SSSS with transferring mechanism by FoP from Primary Dealer securities account to the Government securities account amounting to the nominal value of SUN series under collateral.
- 4) After the settlement of collateral as referred to in number 3), Bank Indonesia, c.q. DPM, shall register the issuance of SUN series borrowed and credit securities account of Primary Dealer or Sub-Registry designated by the Primary Dealer amounting to the nominal value of SUN borrowed.

b. Reversal Settlement of SUN Lending Facilities

Reversal settlement of SUN Lending Facilities shall be executed on the settlement date as follows.

- 1) Bank Indonesia, c.q. DPM, shall execute early redemption on SUN series borrowed by Primary Dealer by debiting securities account of Primary Dealer or securities account of Sub-Registry designated by the Primary Dealer amounting to the nominal value of SUN borrowed.
- 2) After early redemption as referred to in number 1), Primary Dealer and Bank Indonesia on behalf of the Government shall settle SUN series under collateral to the Minister of Finance of the Republic of Indonesia, c.q. Director-General of Debt

Management, through transferring mechanism by FoP from the Government securities account to Primary Dealer securities account amounting to the nominal value of SUN under collateral.

- 3) If the settlement as referred to in number 2) may not be executed up to the deadline of securities settlement at the BI-SSSS, the settlement of SUN Lending Facility redemption shall be cancelled.

c. Extension of SUN Lending Facilities

- 1) Primary Dealer may submit application for extension of SUN Lending Facilities to the Minister of Finance of the Republic of Indonesia, c.q. Director-General of Debt Management.
- 2) If the Minister of Finance of the Republic of Indonesia, c.q. Director-General of Debt Management, approves the extension of the SUN Lending Facility, on the settlement date:
 - a) procedures as referred to in point b.1 and point b.2. shall not be executed;
 - b) Primary Dealer shall pay SUN Lending Facility extension fee in accordance with procedures as referred to in point a.1) and deliver payment receipt referring to point a.2).
 - c) SUN Lending Facility redemption shall be conducted in accordance with settlement procedures as referred to in letter b.

d. Process of Collateral Settlement

In the event that Primary Dealer fails to deliver borrowed SUN series,

1) the Minister ...

- 1) the Minister of Finance of the Republic of Indonesia, c.q. Director-General of Debt Management, may sell SUN under collateral.
- 2) based on a written request by the Minister of Finance of the Republic of Indonesia, c.q. Director-General of Debt Management, Bank Indonesia shall settle the SUN as stipulated in Minister of Finance Regulation.

D. Settlement of Retail Government Bond (ORI)

1. Settlement of ORI shall be executed in 2 (two) working days after determination of ORI allotment results in Primary Market (T+2).
2. Based on determination of ORI allotment results by the Minister of Finance of the Republic of Indonesia, the settlement shall be executed on the settlement date as follows.
 - a. Selling Agent shall pay through the BI-RTGS System into the Government Rupiah account at Bank Indonesia under account number 500.000003 ‘Menteri Keuangan, c.q. Dirjen Anggaran untuk Pengelolaan SUN’ at the value of allotment results, no later than 10.00 a.m. (western Indonesian time).
 - b. Selling Agent other than Bank shall be required to designate Paying Bank to pay as referred to in letter a.
 - c. Selling Agent shall submit payment receipt as referred to in point a to DPM, c.q. PTPM.
 - d. After the payment receipt has been received as referred to in letter b, Bank Indonesia shall register the issuance of ORI series and credit securities account of Sub-Registry designated by individual investor buying the ORI.

e. After ...

- e. After the settlement of ORI as referred to in letter d, Sub-Registry shall be required to register the ownership of SUN on behalf of customers on individual basis in the Sub-Registry system.

E. Procedures of Payment of Government Bond Coupon and/or Redemption of SUN Principal

1. The payment of SUN coupon and/or redemption of SUN principal shall be based on the outstanding SUN ownership registered at Central Registry in 2 (two) working days prior to the payment date of SUN coupon and/or the maturity date of SUN principal (T-2).
2. Bank Indonesia as the paying agent shall pay SUN coupon and/or redemption of SUN principal on maturity date, by debiting the Government Rupiah account at Bank Indonesia and crediting in the amount of SUN coupon and/or principal value on :
 - a. the Bank Rupiah account at Bank Indonesia for SUN ownership on behalf of the Bank; and
 - b. the Paying Bank Rupiah account designated by Sub-Registry at Bank Indonesia for SUN ownership on behalf of Sub-Registry customer.
3. On the same day with the payment of SUN coupon and/or the redemption of SUN principal by Bank Indonesia, Sub-Registry shall be required to pay SUN coupon and/or redeem SUN principal by crediting customer's account at Sub-Registry amounting to the value of SUN coupon and/or principal.

F. Settlement of SUN Transaction in Secondary Markets

1. SUN transactions in Secondary Markets include, among others, outright, repurchase agreement or repo, SUN pledging transaction, and securities lending borrowing.

2. Procedures of settlement of SUN transactions in Secondary Markets as referred to in number 1 shall refer to applicable Bank Indonesia provisions concerning BI-SSSS.

IV. Concluding Provisions

By the enactment of this Circular Letter, Bank Indonesia Circular Letter Number 7/30/DPM dated July 25, 2005 concerning Procedures of Government Securities Auction in Primary Market and Bank Indonesia Circular Letter Number 7/31/DPM dated July 25, 2005 concerning Procedures of Approval and Revocation of Government Securities Auction Participant shall be revoked and declared no longer valid.

Provisions in this Circular Letter shall come into force as of March 16, 2007.

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

EDDY SULAEMAN YUSUF
DIRECTOR OF MONETARY MANAGEMENT